

Benefit Check

January 2009

A newsletter for retired members of The Public School Retirement System

A look at what's inside

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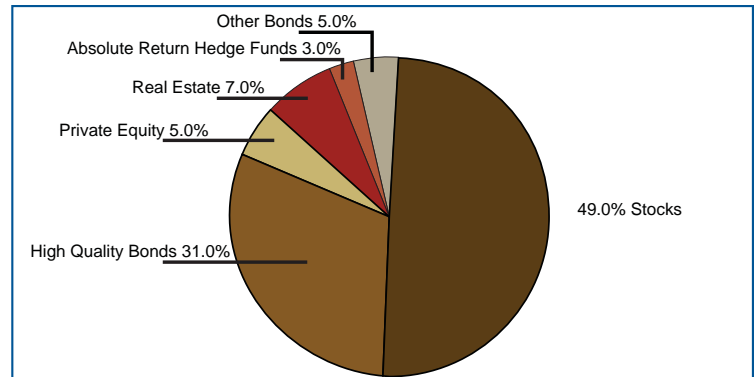
Investment Update

Global stock markets collapsed in 2008 with no economy emerging unscathed. The U.S. stock market (as measured by the S&P 500 Index) declined 38.5% in 2008.

This was the third-worst year in more than a century for the stock market, lagging behind only 1931 and 1937 for the biggest losses in a year. Non-U.S. stock markets declined even more, with the Dow Jones World Index (excluding the U.S.) falling 46% in dollar terms.

The difficult investment environment has not been contained within the stock market. As Warren Buffett said recently, "We have had an economic Pearl Harbor hit." Virtually every asset class (including such historically safe investments as high quality corporate bonds) posted negative returns for the calendar year. The only major asset class that had positive returns for the year was United States Treasury securities.

Every individual, whether in a defined benefit plan such as PSRS/PEERS or in an individually directed 401(k), is concerned about their retirement in the current distressed



PSRS/PEERS Asset Allocation

economic environment. We want to address some of the most common concerns (as they relate to PSRS/PEERS) in this newsletter.

Has the PSRS/PEERS Investment Portfolio Changed?

Yes. We held the view early in the year that credit problems facing the financial sector could unfold over an extended period of time. As a result, about 25% of the entire portfolio was transitioned to U.S. Treasury bonds in January 2008. Treasury bonds are the safest and most liquid assets in the world today. As of December 31, 2008, the Systems had over \$7 billion invested in high quality bonds including U.S. Treasury securities. A direct result of the movement of assets from corporate bonds to Treasury bonds is that the Systems' level of assets is almost \$1 billion greater than without the transition.

How is PSRS/PEERS Different from an Individual Investor?

The biggest differences between the Systems and an individual investor are the size of the fund (investing for over 210,000 school employees) and the time frame. As a large institutional investor, PSRS/PEERS has the ability to invest over a 30-year time horizon because the Systems have significant assets to cover current liabilities. As the chart on the previous page indicates, the allocation of assets is highly diversified among bonds (U.S. Treasuries), U.S. stocks, non-U.S. stocks, real estate and private equity.

Has the Recent Stock Market Downturn Affected the Value of the PSRS/PEERS Investment Portfolio?

Yes. All investors that own stocks have been affected significantly by the downturn in the market. However, only a portion of the PSRS/PEERS assets are invested in the stock market. This diversification provides the Systems with a moderate degree of

downside protection in periods when the stock market declines. A very important factor in the recent negative market environment is that the Systems continue to maintain a very sizeable pool (30%) of highly liquid bonds.

Investment Markets are Poor but Opportunities are Available.

Until there is more clarity in the credit markets, there will be difficult times ahead for all investors. However, we believe that, ultimately, the investment environment will offer opportunities for patient, long-term investors such as PSRS and PEERS. For example, even if the stock market continues to decline, we believe that the current environment offers an attractive opportunity to buy stocks at fundamentally sound prices. Over the long-term, we believe this ability to prudently buy inexpensive assets across various markets will provide consistent and meaningful investment returns for the Systems.

2009 PSRS Cost-of-Living Adjustment Set at 5%

The PSRS/PEERS Board of Trustees has voted to set the January 2009 Cost-of-Living Adjustment (COLA) for eligible benefit recipients at 5.0%. Retirees who retired January 1987 through December 2007 are eligible for this increase, and will see it reflected in their January 30,

2009 benefit payment. Those who retired January 1986 through December 1986 will receive a 3.64% COLA. PSRS retirees who retired in 1985 or earlier will not receive any increase because they have received the maximum amount of COLA increases allowed by law.

The Board of Trustees has set the January 2009 COLA at 5.0% for all eligible benefit recipients.

Are you eligible for a COLA increase?

To determine if you are eligible, please look for your PSRS retirement date below.

Retirement Date	COLA	Explanation
1985 or earlier	0.0%	COLA increases have reached 80% lifetime cap.
January 1986 through December 1986	3.64%	80% lifetime COLA cap not yet reached. (3.64% on January 1, 2009, will take you to the 80% cap.)
January 1987 through December 2007	5.0%	This is your COLA increase.
January 2008 or after	0.0%	COLA eligibility for you is the 2nd January 1 following your PSRS retirement date. You have not yet reached your 2nd January 1.

Facts About COLAs:

- You are eligible for cost-of-living adjustments (COLAs) starting the second January following your retirement.
- COLAs can be made annually, and are effective with the January benefit issued the last working day of January.
- COLAs are based on increases in the cost of living shown by the Consumer Price Index for Urban Consumers (CPI) for the preceding fiscal year (July 1 – June 30).
- If the CPI for the preceding fiscal year is 2% or more, the Board will grant a COLA to eligible retirees. If the CPI for that period is less than 2%, a COLA is not required by law.
- COLAs cannot exceed 5% per year, according to law.
- By law, the total of the COLA increases in your lifetime cannot exceed 80% of your original monthly retirement benefit.
- The first COLA granted is based on your original benefit amount. Subsequent COLAs are calculated by multiplying your current monthly benefit amount (at the time of the COLA) by the percentage of COLA increase. Each subsequent COLA percent increase is figured on the new, larger benefit amount created by the previous COLA. The result over time is a compounding effect that causes the overall percent increase in the monthly benefit to be higher than the percentage you get by simply adding up the COLA percentages you have earned over time.



Why is the PSRS COLA Different Than the Social Security COLA?

The 2009 PSRS COLA increase for benefit recipients has been set at 5.0%. Social Security has announced a 2009 COLA increase of 5.8%.

Both Social Security and PSRS COLA increases are based on increases in the cost of living determined by looking at the Consumer Price Index for Urban Consumers (CPI).

However, the timeframes used in the calculation of the two COLAs are different. Social Security COLAs are based on figures for a fiscal year which runs October 1 through September 30. PSRS COLAs are based on a fiscal year that runs July 1 through

June 30. In addition, changes in the Consumer Price Index tend to be very volatile from month to month. The result is that the difference in the months included in each system's fiscal year can provide different COLA increases for PSRS and Social Security.

In addition, state law limits the PSRS COLA to a maximum of 5% per year.

Although the end result could be much different next year, depending on the economy, these differences cancel out over a longer period of time, resulting in a similar cumulative COLA increase in the long-run for both PSRS and Social Security.

Forms 1099-R to Mail in January

Watch your mail for your 2008 IRS Form 1099-R. You will need this form when filing your 2008 tax returns.

Your annual Form 1099-R shows the total funds you received from the Retirement System in calendar year 2008, the taxes withheld, and, in most cases, the dollar amounts considered taxable income. If you have a professional tax advisor, we suggest that you make this information available for his or her review.

Unless you specifically ask us not to do so, we are required to withhold federal income tax from each benefit payment in excess of a specific amount set by the Internal Revenue Service (IRS) each year. If the taxable portion of your benefit is less than that amount, we do not withhold

any amount unless you authorize us to do so.

You can authorize PSRS to start, stop or change federal or Missouri state tax withholding from your benefit by completing the **Tax Withholding Authorization** form. This form is available by calling our office at **(800) 392-6848**, or on the forms page of our Web site.

If you need tax advice, you should contact a tax professional, the IRS at **(800) 829-1040** or visit them online at **www.irs.gov**. You can reach the Missouri Department of Revenue at **(573) 751-3505** or visit them online at **www.dor.mo.gov**.

2009 Statements of Benefit to Mail in January
Benefit recipients will receive a Statement of Benefit in mid to late January to confirm gross and net 2009 benefit amounts. We anticipate these will mail before Forms 1099-R this year.

If you need a duplicate copy of your Form 1099-R, you may contact us to request one after February 1, 2009.

Sample IRS Form 1099-R

Box 1 – The total amount paid to you by PSRS for the calendar year. (This includes the payment issued on 12/31.)

Box 2a – The portion of your total benefit received during the calendar year that should be considered taxable income.

Box 4 – The total amount of federal income tax withheld, if any, from your monthly payments during the year.

Box 5 – The portion of pre-July 1989 contributions and after-tax purchase payments excluded from taxation during the calendar year.

Box 7 – IRS code used to identify the type of distribution you received. Used to determine the proper tax treatment of your payments.

Box 10 – The total amount of Missouri state income tax withheld, if any, from your monthly payments.

Form 1099-R Department of the Treasury - Internal Revenue Service

2009 Direct Deposit Schedule

Payment for:	Will be deposited:
January	January 30
February	February 27
March	March 31
April	April 30
May	May 29
June	June 30
July	July 31
August	August 31
September	September 30
October	October 30
November	November 30
December	December 31

If you need to change the account to which your funds are deposited, call us toll free at **(800) 392-6848** to make the change. You may also fax us the information at **(573) 634-7934**, or write us. Please

include your signature on your written request for a change.

You may also request a change by completing a new *Direct Deposit Authorization* form, available on our Web site, www.psr-peers.org, or by calling us.

Don't forget!

Contact us if your name or mailing address changes. It is important to keep your information on record current so important items such as your annual Statement of Benefit, IRS Form 1099-R, and this newsletter, will reach you.

You can find name change and address change forms on our Web site, www.psr-peers.org, or you can call **(800) 392-6848** to request them.

Tell Your Tax Preparer! Your PSRS Benefit May Qualify You for the Missouri Public Pension Tax Exemption

Beginning in tax year 2007, married couples with Missouri adjusted gross income less than \$100,000 and single individuals with Missouri adjusted gross income less than \$85,000, may deduct the greater of \$6,000 or 20% of their public retirement benefits (like PSRS) on their Missouri income taxes, to the extent the amounts are included in their federal adjusted gross income. For 2008, that percentage increases to 35%. The deductible percentage of their public retirement benefits will increase until 2012. A breakdown of the yearly percentage is as follows:

Year	Limit
2007	20%
2008	35%
2009	50%
2010	65%
2011	80%
2012 and forward	100%

The total public pension exemption is limited to the maximum Social Security benefit of each spouse (\$26,200).

Married couples with Missouri adjusted gross income greater than \$100,000 and single individuals with Missouri adjusted gross income greater than \$85,000, may qualify for a partial exemption.

Visit www.dor.mo.gov for more information regarding eligibility. Their site includes a qualification chart for your reference and information on the forms you must file to take the exemption. You can reach the Missouri Department of Revenue by phone at **(573) 751-3505**, or **email income@dor.mo.gov**. If you believe you qualify for this tax exemption, we recommend that you consult a tax professional for more information.

Peggy Preston and Aaron Zalis Elected to Serve on PSRS/PEERS Board of Trustees



Peggy Preston



Aaron Zalis

Peggy Preston and **Aaron Zalis** have been declared elected to the PSRS/PEERS Board of Trustees effective September 19, 2008.

Zalis fills the position vacated by the resignation of former Board Chairman Phil Wright in April, and will serve out the remainder of Dr. Wright's term, which ends June 30, 2012. Preston fills the position vacated by the retirement of Board member Cheryl Boggess in July. She will serve out the remainder of Boggess' term, which ends June 30, 2010.

An October election had been planned to fill the two open positions on the Board, but that was not required, since Preston and Zalis were the only candidates who filed nominating petitions. They were declared elected after the certification of the validity of their petitions and accompanying signatures was completed by an auditing committee.

Preston will serve her third term on the Board, having been first elected to the Board July 1, 2000. She has 30 years of teaching experience, and is currently a computer instructor for grades K-4 at Century Elementary in Nixa.

This will be Zalis' first term on the Board. Zalis has been a part of Rolla Public Schools' administration since 1994, and presently serves as Deputy Superintendent for Human Resources and Support Services at the district.

Need a PSRS Publication or Form? Try our Web Site...

Many PSRS forms and publications are available online at www.psr-peers.org.

PSRS online forms can be filled out on your computer and printed, or printed and filled out later.

You can also find easy to view online versions of your PSRS newsletters and the *PSRS/PEERS Annual Financial Report*.

If you can't find the form or publication you need, let us know! Call our Information Center at **(800) 392-6848** and we will mail you what you need.

PSRS Contribution Rate Set for 2009-2010 School Year

Each year, the Public School Retirement System (PSRS) Board of Trustees is required by law to set the contribution rate to be paid by members and school districts during the next fiscal year. As fiduciaries of the PSRS trust fund, the Board is legally required to establish a contribution rate that will adequately fund the benefit promises made to PSRS members.

As required by law, the Board retains an actuarial firm to review the fund at the close of each fiscal year, determine the value of the benefit promises made and calculate a contribution rate to fund those. Each year, the PSRS consulting actuary presents the Board of Trustees with the results of this review in its annual actuarial valuation. This report, which might be called the System's annual fiscal check-up, assesses the solvency of the Retirement System and determines the level of employer and employee contributions required to maintain or improve the solvency of the plan.

This year, as the System transitioned to a new actuarial firm, the members of the Board had the opportunity to review both the results of the regular annual valuation study performed by the previous actuarial firm, Gabriel Roeder Smith & Company (GRS), and also that of the System's newly retained actuarial firm, PricewaterhouseCoopers (PwC).

Employee and employer contributions have increased for the last several years, as the System continues to work toward reaching a 100% pre-funded status. Based on information and recommendations provided in both studies, the Board voted to increase each side of the required employer and employee contribution rate from 13.0% to 13.5% for the 2009-2010 school year. This change will become effective July 1, 2009.

The largest factor behind rising contribution rates is the System's unfunded actuarial accrued liability (UAAL). UAAL essentially means the System has more in liabilities than assets to cover those long-term liabilities. The UAAL is primarily a result of the current market decline, the challenging investment markets of the early 2000's, legislative benefit increases in the mid- to late-1990's affecting both

active and retired members, and current contribution rates that are below those needed to adequately fund the System.

The Board and staff have worked diligently in structuring an investment program that will provide a competitive rate of return at the lowest possible cost and risk.

"Negative investment returns such as those experienced by PSRS in fiscal year 2008 do have a direct impact on future contribution rate increases," said PSRS Chief Investment Officer, Craig Husting. "It is important to note that the primary driver for additional contribution rate changes in future years beyond 2009-2010 will be dependent on how much, if any, investment returns can be generated above the System's actuarially assumed return of 8%."

The June 30, 2008 PSRS actuarial valuation done by GRS showed a UAAL of \$5.7 billion and a required contribution rate of 14.2% (matched by the employer) to fund the PSRS benefits currently in place for PSRS members. The study done by PwC confirmed those findings. While the actuarially required contribution rate is 14.2%, a 2003 law prohibits increasing the rate any higher than 1% total each year (as discussed above, this, in effect, increases the UAAL each year). In order to address the UAAL, the Board must legally continue to reconsider the contribution rate on an annual basis to be certain the System remains adequately funded. While the Board strives to keep the contribution rates as low as possible, governmental accounting standards require that the unfunded actuarial accrued liability be funded over a period not to exceed 30 years.

Consideration of a contribution rate increase is not something the PSRS Board of Trustees takes lightly but the Board and administration are deeply committed to maintaining the financial solvency and strength of our Retirement System.

Using Technology to Improve Your Retirement System

PSRS has made major advances in the technology used to administer and protect your retirement. These technology improvements will make it easier and safer for our staff to provide information that is tailored to your specific retirement needs. Besides gaining system efficiencies we are also working diligently to keep your personal information secure.

This technology initiative has been named “Ticket to the Future,” in recognition of the major role technology will play in the future administration and security of your retirement system. Major initiatives currently in progress or recently completed include:

New Pension Administration System

This is the largest technology project ever undertaken by PSRS, and includes not only replacing our existing pension administration system, but also converting all paper records into an electronic format that can be routinely backed up and consequently restored if necessary. The new system, called Pension Gold PE, was developed by Levi, Ray, and Shoup (LRS) and is built on a web-browser type of architecture. LRS has 27 years of public pension system experience.

In addition to significant technical and efficiency benefits for the day-to-day operations of PSRS, members will also experience improvements that include:

- better security,
- improved day-to-day services,
- shortening of our already industry-leading turnaround times for benefit estimates, purchase estimates and other member inquiries (despite an increasing workload caused by the anticipated retirement of baby boomers), and
- the ability to offer these services without significant increases in staffing levels.

Other service improvements are expected in our Information Center, where our representatives will have improved access to data, enabling them to answer member questions at first contact.

Member access to account information via PSRS/PEERS Web Member Services (WMS) will improve

significantly. While members currently have online access to their account information and employment history using a secure login, the new system will also allow members to update personal information, submit information requests, and electronically complete and submit forms.

Improved Telephone System

Members will always be able to pick up the phone and call us. Since January, 2008, our Information Center has been using a state of the art Voice Over IP (VOIP) phone system. The new system has several features that allow us to respond more effectively. Calls coming into our Information Center are currently recorded and saved, however, the new system allows us to index, or file, each call as a part of the member’s permanent record. When fully implemented, the new phone system recording functionality will integrate seamlessly with the new pension administration system and place all member related information, including phone calls, at the fingertips of our Information Center representatives.

Disaster Preparedness

PSRS staff have worked to complete a disaster recovery analysis and develop a comprehensive series of business continuity plans, including step-by-step procedures and processes to be used in a post-disaster environment. Disaster exercises are conducted periodically (often unannounced to staff). Constant updating and planning ensures that staff will be able to prevent or minimize any disruption of office services, and en-



The PSRS Backup Generator

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sure that benefit payments will continue uninterrupted in almost any disaster.

PSRS stores vital paper records with an off-site secure underground storage facility, and contracts with a business continuity firm to provide on-site mobile offices and computing units within 48 hours of a disaster that would cause our office building to be uninhabitable. A diesel-powered generator has been installed to prevent power outages that might cause interruption of services or data problems, and all paper waste is shredded on-site using a certified disposal firm.

Information Security

PSRS has hired two more professionals to assist in data security efforts. The Information Technology section hired a Security Analyst in April 2008 and a second Internal Auditor joined our staff in November 2008.

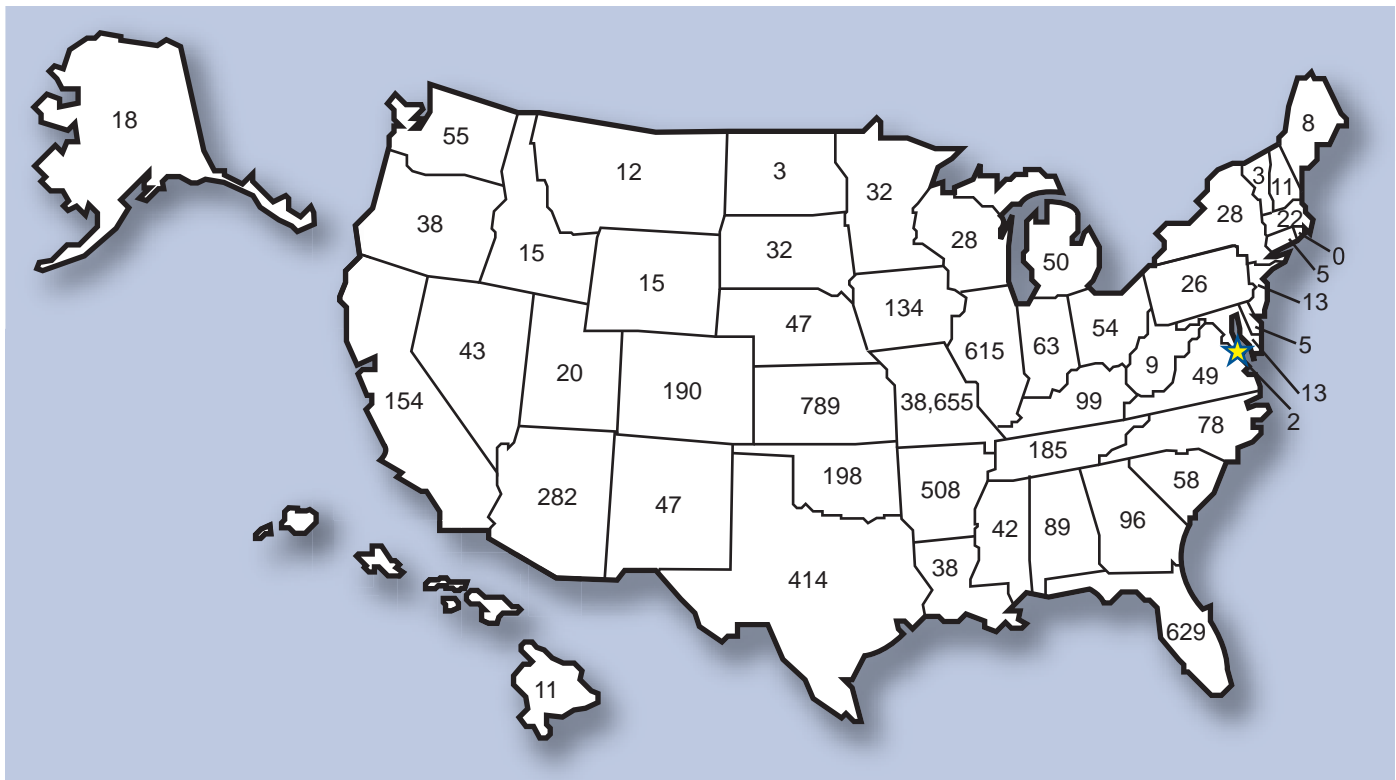
Our Information Technology staff is constantly

monitoring developing products and methods to improve the security of member data and our computer networks. They also conduct periodic tests of computer systems with regard to data security, data recovery, and network vulnerability.

We have formalized our security policies in a new Security Policy Manual that all PSRS employees are required to read and sign each year. All new employees are subjected to an expanded background check and all PSRS employees annually undergo security training. In addition, a new, more secure building access system has been installed.

PSRS fully understands the obligation it has regarding the security of your personal information, and in a world that increasingly places vast amounts of information at people’s fingertips, we must be relentless in our efforts to pursue technology that gives our membership needed access to their information, while keeping others away.

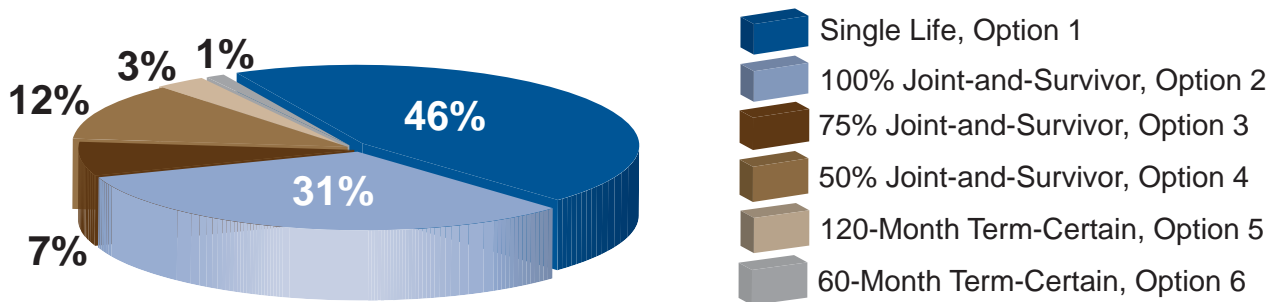
Where PSRS Retirees Live



PSRS Retirees Living Outside the U.S.: 22
Total PSRS Retirees Living in the U.S.: 44,033*
 *Includes 3 in U.S. Virgin Islands

What Retirement Plans Do PSRS Retirees Choose?

We are often asked what retirement payment plans are most popular with our members. The chart below shows the percentage of PSRS service retirees during the 2007-2008 school year who elected each benefit payment option.



46% Chose the Single Life Plan, Option 1

This plan provides the largest lifetime monthly benefit to you and makes no provision for continuing monthly payments to a beneficiary after your death. Any unused balance of your contributions and interest in your account at your death is paid in a lump sum to your designated beneficiary. That balance is usually depleted in fewer than five years after your effective retirement date.

31% Chose the 100% Joint-and-Survivor Plan, Option 2

This plan provides a reduced lifetime monthly benefit with all of your benefit (100%) continuing to your named beneficiary after your death. The actuarial reduction in your monthly benefit depends on your age and the age of your named beneficiary when you retire. Your benefit “pops-up” to the Option 1 amount if your beneficiary dies before you.

7% Chose the 75% Joint-and-Survivor Plan, Option 3

This plan provides a reduced lifetime monthly benefit with three-quarters of your benefit (75%) continuing to your named beneficiary after your death. The actuarial reduction in your monthly benefit depends on your age and the age of your named beneficiary when you retire. Your benefit “pops-up” to the Option 1 amount if your beneficiary dies before you.

12% Chose the 50% Joint-and-Survivor Plan, Option 4

This plan provides a reduced lifetime monthly benefit with one-half of your benefit (50%) continuing to your named beneficiary after your death. The actuarial reduction in your monthly benefit depends on your age and the age of your named beneficiary when you retire. Your benefit “pops-up” to the Option 1 amount if your beneficiary dies before you.

3% Chose the 120-Month Term-Certain Plan, Option 5

This plan allows you to take a small reduction in your lifetime monthly benefit in order to provide coverage to your beneficiary for 120 months after your retirement becomes effective. The beneficiary receives monthly benefits only if your death occurs within the term. If you die before you receive 120 payments, the remaining payments in the term are made to your beneficiary. If you live beyond the term, your monthly payments continue for your lifetime, but no payments are made to your beneficiary when you die.

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1%
**Chose the 60-Month Term-Certain Plan,
Option 6**

This plan allows you to take a small reduction in your lifetime monthly benefit in order to provide coverage to your beneficiary for 60 months after your retirement becomes effective. The beneficiary receives monthly benefits only if your death occurs within the term. If you die before you receive 60 payments, the remaining payments in the term are made to your beneficiary. If you live beyond the term, your monthly payments continue for your lifetime, but no payments are made to your beneficiary when you die.

Benefit Check

Benefit Check is published and mailed twice annually, with special editions as needed, to retired members of the Public School Retirement System of Missouri.

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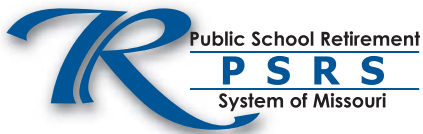
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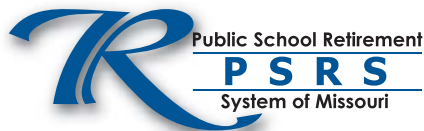
Visit

www.psrs-peers.org

for news about your retirement system:

- Cost-of-Living Adjustment (COLA) information
- Working After Retirement rules
- PSRS publications
- And much more.

Sign up online to receive your PSRS newsletter via email starting with the next issue!



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